Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0567	**Title:**	Impact assistance for major energy project development
Primary Sponsor:	Gillan, Kim	**Status:**	As Amended

- ☑ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$200,000	$0	$0	$0
SSR (02) - Oil, Gas, Coal Acct	$1,195,630	$1,176,092	$1,170,449	$1,105,916
SSR (02) - Current Allocation	($1,195,630)	($1,176,092)	($1,170,449)	($1,105,916)
Revenue:				
General Fund	$0	$0	$0	$0
SSR (02) - Oil, Gas, Coal Acct	$1,195,630	$1,176,092	$1,170,449	$1,142,151
SSR (02) - Current Allocation	($1,195,630)	($1,176,092)	($1,170,449)	($1,142,151)
Net Impact-General Fund Balance:	($200,000)	$0	$0	$0

Description of fiscal impact:

Proposed law will redirect 1.25% of revenue from the counties' allocation of oil and natural gas production taxes to the oil, gas, and coal natural resource state special revenue account. Revenue distributed into this account will be used by the coal, oil, gas, and energy development impact board created in HB 798 to mitigate energy development impacts to local government units.

FISCAL ANALYSIS

Assumptions:

1. The bill is effective July 1, 2007.
2. Proposed law will redirect 1.25% of each county's distribution of oil and natural gas production taxes to the oil, gas, and coal natural resource state special revenue account established in 90-6-1001, MCA.

3. Under proposed law, the redirection of oil and natural gas production taxes described in Assumption 2 will first affect revenue from taxes on production in the third quarter of tax year 2007 (tax year 2007 Q3). This revenue is recorded as first quarter FY 2008 revenue.
4. Department of Revenue (DOR) oil and natural gas production tax collection and distribution reports from taxes on production in tax year 2005 Q4 through tax year 2006 Q3 (four quarters) are used to project the counties' allocations of oil and natural gas production tax revenue as a percentage of total collections from taxes on production in tax year 2007 Q3 through tax year 2011 Q2. These projections are used to project fiscal impacts in FY 2008 through FY 2011.
5. The percentage of oil and natural gas production tax revenue allocated to the counties from taxes on production in tax year 2007 Q3 through tax year 2011 Q2 is projected to equal 46.53%. This equals the percentage distributed to counties from total collections of oil and gas production taxes levied on production in tax year 2005 Q4 through tax year 2006 Q3.
6. The projection of the counties' allocation as a percentage of total taxes on production is combined with OBPP projections of total oil and natural gas production taxes on production to project distributions to oil and gas producing counties in FY 2008 through FY 2011. Table 1 shows projected current law and proposed law distributions to the oil and gas producing counties, and distributions to the oil, gas, and coal natural resource state special revenue account that would be redirected from the counties' distributions under proposed law in FY 2008 through FY 2011.

Table 1
Current Law and Proposed Law Projected Distributions of Oil and Natural Gas Production Taxes to the Oil and Gas Producing Counties and the Oil, Gas, and Coal Natural Resource Account

Fiscal Year	Current Law Distributions to All Counties		Proposed Percentage Allocation to Counties		Proposed Law Distributions to All Counties	Proposed Law Distribution to Oil, Gas, and Coal Account
2008	95,650,328	X	98.75%	=	94,454,698	1,195,630
2009	94,087,316	X	98.75%	=	92,911,225	1,176,092
2010	93,635,885	X	98.75%	=	92,465,435	1,170,449
2011	91,372,032	X	98.75%	=	90,229,881	1,142,151

7. Under proposed law, projected distributions to the oil, gas, and coal natural resource state special revenue account equal $1,195,630 in FY 2008, $1,176,092 in FY 2009, $1,170,449 in FY 2010, and $1,142,151 in FY 2011. These funds are redirected from the projected distributions of oil and natural gas production taxes to the oil and gas producing counties.
8. Proposed law is void if HB 798 is not passed and approved. HB 798 specifies that interest earned on balances in the oil, gas, and coal natural resource state special revenue account is retained by the account. Fiscal note ignores accumulation of interest to this account, as expenditures from the account are unknown.
9. DOR will require $200,000 additional expenditure in FY 2008 for program updates to Gentax.
10. It is assumed the Department of Commerce (DOC) would require 0.50 FTE to address the duties and responsibilities mandated in the bill. The estimated personal services costs will be $21,051 in FY 2008, $21,089 in FY 2009, $21,616 in FY 2010, and $22,157 in FY 2011.
11. The estimated operating expenses for DOC will be $14,922 in FY 2008, $13,400 in FY 2009, $13,735 in FY 2010, and $14,078 in FY 2011.

12. Impact grants are estimated to be made in the amount equal to the increase to the oil, gas, and coal natural resource account less DOC expenditures. The grant expenditures are projected to be $1,159,657 in FY 2008, $1,141,603 in FY 2009, $1,135,098 in FY 2010, and $1,105,916 in FY 2011.

	FY 2008 Difference	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Fiscal Impact:				
Expenditures:				
Personal Services (DOC)	$21,051	$21,089	$21,616	$22,157
Operating Expenses (DOC)	$14,922	$13,400	$13,735	$14,078
Operating Expenses (DOR)	$200,000	$0	$0	$0
Grants	$1,159,657	$1,141,603	$1,135,098	$1,105,916
Local Assistance	($1,195,630)	($1,176,092)	($1,170,449)	($1,142,151)
TOTAL Expenditures	$200,000	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$200,000	$0	$0	$0
SSR (02) - Oil, Gas, Coal Acct	$1,195,630	$1,176,092	$1,170,449	$1,142,151
SSR (02) - Current Allocation	($1,195,630)	($1,176,092)	($1,170,449)	($1,142,151)
TOTAL Funding of Exp.	$200,000	$0	$0	$0
Revenues:				
General Fund (01)	$0	$0	$0	$0
SSR (02) - Oil, Gas, Coal Acct	$1,195,630	$1,176,092	$1,170,449	$1,142,151
SSR (02) - Current Allocation	($1,195,630)	($1,176,092)	($1,170,449)	($1,142,151)
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($200,000)	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. Projected losses to the counties through redirection of the counties' allocation of oil and natural gas production taxes to the state special revenue fund equals $1,195,630 in FY 2008, $1,176,092 in FY 2009, $1,170,449 in FY 2010, and $1,142,151 in FY 2011.
2. Table 2 shows the allocations by county of 1.25% of each county's share of FY 2006 oil and natural gas production tax revenue. The revenue is allocated in each county according to each county's actual allocation of FY 2006 oil and natural gas production tax revenue to local government units. Table 2 provides a reference point for projected losses under proposed law; it does not project losses to local government units in FY 2008 through FY 2011.

Table 2
Local Distribution of 2.5% of the Oil and Gas Producing Counties Share of FY 2006 Oil and Natural Gas Production Tax Revenue

County	1.25% of FY 2006 Distribution	County Government Distribution	Elementary School Retirement	High School Retirement	Countywide Transportation	Community College	School Districts
Big Horn	$ 39,487	$ 17,710	$ 5,848	$ 4,091	$ 1,181	$ -	$ 10,658
Blaine	62,009	40,297	3,667	1,446	1,696	-	14,903
Carbon	21,468	8,435	773	1,421	281	-	10,558
Chouteau	9,446	5,732	765	408	294	-	2,247
Custer	673	319	46	23	8	66	210
Daniels	446	178	-	35	17	-	216
Dawson	16,350	6,664	904	409	181	2,371	5,821
Fallon	256,229	124,399	-	19,550	3,177	-	109,102
Fergus	795	254	63	38	17	-	423
Garfield	802	492	32	25	42	-	210
Glacier	28,490	9,917	3,191	1,387	858	-	13,137
Golden Valley	1,001	311	-	115	28	-	547
Hill	53,718	20,289	3,599	2,186	854	-	26,789
Liberty	13,500	7,313	662	616	155	-	4,755
McCone	412	193	17	13	11	-	178
Musselshell	6,636	3,600	397	270	234	-	2,135
Petroleum	2,258	632	-	269	104	-	1,253
Phillips	64,575	32,675	278	4,262	697	-	26,663
Pondera	6,657	2,721	463	337	129	-	3,007
Powder River	8,468	5,610	335	251	387	-	1,884
Prairie	2,782	1,463	-	247	45	-	1,026
Richland	402,100	184,765	16,486	15,762	9,087	-	175,999
Roosevelt	49,818	19,439	4,947	3,672	1,365	-	20,395
Rosebud	8,669	1,722	335	194	91	-	6,325
Sheridan	62,492	29,221	-	2,118	1,387	-	29,765
Stillwater	370	168	25	18	6	-	152
Sweet Grass	399	191	24	26	10	-	149
Teton	1,361	703	94	111	52	-	400
Toole	28,573	13,595	794	1,366	371	-	12,446
Valley	10,419	4,104	235	1,314	482	-	4,283
Wibaux	28,005	17,831	-	1,148	216	-	8,810
Yellowstone	540	182	43	25	6	-	285
Total	$1,188,945	$ 561,125	$ 44,026	$ 63,154	$ 23,470	$ 2,437	$ 494,733

Long-Range Impacts:

1. The proposed law is permanent. The redirection of 1.25% of the counties' allocation of oil and natural gas production taxes to the state special revenue fund will continue in FY 2012 and beyond.

Technical Notes:

1. Fiscal note assumes that the $1 million in subsection 1 (3)(b)(ii) means $1 million per fiscal year. The language should specify exactly the time period intended.
2. The $200,000 expenditure increase to the Department of Revenue (DOR) for Gentax updates would be substantially reduced if subsection 1 (3)(b)(ii) were deleted.

3. Subsection 1 (3)(b)(ii) requires the coal, oil, gas, and energy development impact board (board) to adjust the allocation percentage of 1.25% if the threshold of $1 million is not met. In reality DOR will be required to assess the need and adjust the allocation percentage. If not deleted, subsection 1 (3)(b)(ii) should require DOR to adjust the allocation percentage, and notify the board afterward. However, even if DOR is given the authority to adjust the allocation percentage, DOR may not be able to administer the provisions in subsection 1 (3)(b)(ii).
4. Proposed law may need coordination with HB 823.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*